



August 23, 2016

Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee
North Dakota State Government

Re: Legislative Studies

Dear Senator Krebsbach:

In accordance with your request, we have analyzed the impact of Bill No. 17.0109.01000 on the North Dakota Public Employees Retirement System (NDPERS).

Systems Affected:

North Dakota Public Employees Retirement System (Main System, Law Enforcement with prior Main System service, and Law Enforcement without prior Main System service)

Summary:

Bill No. 17.0109.01000

Allows political subdivisions, on behalf of their firefighters, to enter into agreements with the retirement board, for the purpose of extending the benefits of the public employees retirement system to those firefighters.

Actuarial Impact of Bill 109 on NDPERS

The actuarial impact of this change will depend specifically on the number and age of new members who would enter the Law Enforcement Plan, whether or not the new members have participated in the Main System, and the amount of liabilities and assets (if any) that would be transferred into the Law Enforcement Plan. We were not supplied with any member data on firefighters of political subdivisions who may potentially be interested in entering the Law Enforcement Plan. Therefore the following comments are general in nature.

- Eligible firefighters of political subdivisions who currently **do not** participate in NDPERS in the Main System would be allowed to participate in the Law Enforcement without prior Main System service System, but only on a prospective basis. In other words, such employees would have a normal cost but would have no past service liability cost. The normal cost as a percentage of compensation will be dependent on the current age of the firefighters transferring into the system.
 - The following information is based on the results from the actuarial valuation as of July 1, 2015, for the Law Enforcement without prior Main System service System
 - Board approved employer contribution rate of 7.93% of pay
 - Employer normal cost rate (including administrative expenses) of 7.71% of pay

- Average age of active employees of 37.8
 - Average service of active members of 3.2 years
 - The normal cost as a percentage of compensation would decrease (increase) if the average age for the transferring group is younger (older) than the average age at plan entry for the current active members of the Law Enforcement without prior Main System service System.
 - There would be no past service liability cost since prior plan benefits would not be transferred into the System. However, the political subdivision will still contribute the entire employer contribution rate for the Law Enforcement without prior Main System service System, which includes components for the normal cost and the amortization of the unfunded past service liability based on the members who are currently in the system.
 - If the transferring group has a lower employer normal cost rate than the Board approved employer contribution rate (current 7.93% of pay), there will be a positive impact to the System.
 - If the transferring group has a higher employer normal cost rate than the Board approved employer contribution rate (current 7.93% of pay), there will be a negative impact to the System.
- Eligible firefighters of political subdivisions who currently **do** participate in NDPERS in the Main System would have a normal cost plus an amortization payment of the increase in past service liability as a result of the transfer. The normal cost impact would be similar to the normal cost impact described for political subdivisions transferring from outside of NDPERS. It is assumed that the Main System past service liability would be transferred to the Law Enforcement with prior Main System service System in the form of an asset transfer equal to the value of service accrued under the Main System.
 - The following information is based on the results from the actuarial valuation as of July 1, 2015, for the Law Enforcement with prior Main System service System
 - Board approved employer contribution rate of 9.81% of pay
 - Employer normal cost rate (including administrative expenses) of 6.43% of pay
 - Average age of active employees of 37.1
 - Average service of active members of 6.3 years of total service (5.5 years of service in the Law Enforcement System)
 - Normal retirement eligibility conditions of age 65 or Rule of 85 in the Main System (age 65 or age 60 with Rule of 90 for Main System members enrolled after 12/31/2015) and age 55 with three years of service or Rule of 85 in the Law Enforcement System
 - Early retirement eligibility conditions of age 55 with three years of service in the Main System and age 50 with three years of service or Rule of 85 in the Law Enforcement System

- Because the Law Enforcement with prior Main System service System contains more favorable retirement provisions than the Main System, there would be an increase in past service liability as a result of the transfer. Therefore, the transfer may be less than the value of benefits under the Law Enforcement with prior Main System service System and result in an increase in unfunded actuarial accrued liability.
 - If the transferring group has a total rate (employer normal cost plus amortization of their unfunded liability) that is lower than the Board approved employer contribution rate (current 9.81% of pay), there will be a positive impact to the System.
 - If the transferring group has a total rate (employer normal cost plus amortization of their unfunded liability) that is higher than the Board approved employer contribution rate (current 9.81% of pay), there will be a positive impact to the System.

Policy Issue Analysis

Benefits Policy Issues

- Adequacy of Retirement Benefits

The Law Enforcement System contains more favorable retirement provisions than the Main System. Therefore, Bill 109 will enhance retirement benefits for firefighters employed by political subdivisions because they will now be able to retire at an earlier age.

- Competitiveness

The bill may increase the benefits competitiveness for firefighters who transfer into the Law Enforcement System.

- Benefits Equity and Group Integrity

Under the bill, firefighters would retire under normal and early retirement dates that are similar to the retirement dates of their peers who are employed by political subdivisions.

- Purchasing Power

No impact.

- Preservation of Benefits

No impact.

- Portability

No impact.

- Ancillary Benefits

No impact.

- Social Security:

No impact

Funding Policy Issues

- Actuarial Impacts

Previously noted.

- Investment Impacts

- Cash Flow: An asset transfer would increase initial cash flow to the Law Enforcement System, but decrease cash flows to the Main System.
- Asset Allocation: The Board will need to decide how to invest the additional member and employer contributions required by the Bill -- in the same manner as the current Investment Policy provides, or in an alternate manner.

Administration Issues

- Implementation Issues

The bill will require that the System reprogram the prior service of firefighters to be counted under the rules applicable to firefighters of political subdivisions. While this bill would have minimal impact on administrative costs of the System, it would have an effect on the participating employer since the required contributions would increase.

- Administrative Costs

The bill will have minimal effect on administrative resources. However, employer contributions will increase, since the statutory employer contribution rate for those transferring will increase from 7.12% of salary to either 9.81% or 7.93% depending on whether the firefighters enter the Law Enforcement Plan with or without Main System past service.

- Needed Authority

The bill appears to provide appropriate levels of administrative and governance authority to the PERS Board to implement the changes made by the bill.

- Integration

No impact.

- Employee Communications

The bill will require employee communications to the firefighters to describe the new retirement rules applicable to them, including the normal retirement age and early retirement age.

Summary

- Firefighters that enter either the Law Enforcement without prior Main System service System or the Law Enforcement with prior Main System service System would be subject to the same eligibility conditions to receive benefits as law enforcement personnel.
- Firefighters that enter either the Law Enforcement without prior Main System service System or the Law Enforcement with prior Main System service System would be subject to the same benefit provisions as law enforcement personnel.
- The addition of a group of firefighters into either the Law Enforcement without prior Main System service System or the Law Enforcement with prior Main System service System does not add a new element of risk to either plan, assuming that the actual experience of firefighters (with respect to disability, death in service, retirement, etc.) is not materially different from that of other law enforcement entities participating in either plan.

Disclosures and Additional Information

Appendix I contains a summary of the plan provisions.

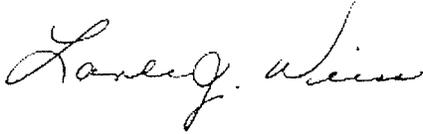
The signing actuaries are independent of the North Dakota Public Employees Retirement System.

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Senator Krebsbach, Chair
Legislative Employee Benefits Programs Committee
August 23, 2016
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Sincerely,



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Senior Consultant and Team Leader



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AW:rl

cc: Mr. Sparb Collins, NDPERS
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BENEFIT PROVISIONS

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions.

1. Normal Service Retirement:

➤ Eligibility:

Main System and Judges:

Attainment of age 65, or at any age with age plus service equal to at least 85 (Rule of 85).

For members enrolled after December 31, 2015, into the Main System, attainment of age 65, or at age 60 with age plus service equal to at least 90 (Rule of 90).

Law Enforcement:

Attainment of age 55 and three consecutive years of service, or if not former National Guard, at any age with age plus service equal to at least 85 (Rule of 85). Former National Guard is eligible for Rule of 85 on August 1, 2015.

➤ Benefit:

Main System and Law Enforcement:

2.00% of final average salary multiplied by service.

Judges:

3.50% of final average salary for each of the first ten years of service, 2.80% for each of the next ten years of service and 1.25% for service in excess of twenty years.

2. Early Retirement:

➤ Eligibility:

Main System:

Attainment of age 55 with three years of service.

Judges:

Attainment of age 55 with five years of service.

BENEFIT PROVISIONS

Law Enforcement:

Attainment of age 50 with three years of service.

➤ Benefit:

Main System:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 is met.

For members enrolled after December 31, 2015, into the Main System, a benefit that begins before age 65 (or Rule of 90, if earlier) is reduced by 2/3% of one percent for each month before the earlier of age 65 or the age at which the Rule of 90 is met.

Judges:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65 or the age at which the Rule of 85 is met.

Law Enforcement:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 55 or the age at which the Rule of 85 is met.

3. Disability Benefit:

➤ Eligibility:

Six months of service and inability to engage in any substantial gainful activity.

➤ Benefit:

Main System and Law Enforcement:

25% of the member's final average salary at disability minus workers' compensation benefits, with a minimum of \$100 per month.

Judges:

70% of the member's final average salary at disability minus Social Security and Workers' Compensation benefits paid.

BENEFIT PROVISIONS

4. Deferred Vested Retirement:

➤ Eligibility:

Main System and Law Enforcement:

Three years of service.

Judges:

Five years of service.

➤ Benefit:

Main System and Judges:

The Normal Service Retirement Benefit payable at age 65 or the Rule of 85, if earlier. Reduced early retirement benefits can be elected upon attainment of age 55.

Law Enforcement:

The Normal Service Retirement Benefit payable at age 55 or the Rule of 85, if earlier. Reduced early retirement benefit can be selected upon attainment of age 50.

5. Pre-Retirement Death Benefits:

(a) Vested participants with a surviving spouse

➤ Eligibility:

Main System and Law Enforcement:

Three years of service.

Judges:

Five years of service.

➤ Benefit:

Main System and Law Enforcement:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.

BENEFIT PROVISIONS

- 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.
- Continuation portion of 100% joint and survivor annuity (only if participant was eligible for normal retirement).
- A partial lump sum payment in addition to the one of the annuity options above.

Judges:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- 100% of the member's accrued benefit (not reduced on account of age) payable for the spouse's lifetime.

(b) Non-vested members or vested members without a surviving spouse

➤ Eligibility:

Main System, Judges and Law Enforcement:

Non-vested or no surviving spouse.

➤ Benefit:

Main System, Judges and Law Enforcement:

Lump sum payment of member's accumulated contributions with interest.

6. Refund of Member Contributions:

Paid to terminated non-vested members and terminated vested members who choose a refund of employee contributions in lieu of a monthly retirement benefit.

BENEFIT PROVISIONS

7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

<u>Time Period</u>	<u>Per Annum Interest Rate</u>
Through June 30, 1981	5.0%
July 1, 1981, to June 30, 1986	6.0%
After June 30, 1986	0.5% less than the actuarial interest rate assumption

8. Standard and Optional Forms of Payment:

Standard form of payment:

Main System and Law Enforcement:

Monthly benefit for life with a refund to beneficiary at death of the remaining balance (if any) of accumulated member contributions.

Judges:

Monthly benefit for life, with 50% payable to an eligible survivor.

Optional forms of payment:

- Life annuity (for Judges).
 - 50% joint and survivor annuity with pop-up (for Main System and Law Enforcement).
 - 100% joint and survivor annuity with pop-up.
 - Twenty-year certain and life annuity.
 - Ten-year certain and life annuity.
 - Social Security level income annuity.
 - A partial lump sum payment in addition to one of the annuity options above.
 - An actuarially equivalent graduated benefit option with either a one percent or two percent increase to be applied the first day of January of each year. Not available for disability or early retirements or in combination with a partial lump sum option, a deferred normal retirement option, or a Social Security level income annuity.

BENEFIT PROVISIONS

9. Final Average Salary:

Average of the highest salary received by the member for any 36 months employed during the last 180 months of employment.

10. Contributions:

Contribution rates specified in the Century Code (except employer rate for Law Enforcement); differ between permanent full-time employees and part-time temporary employees. Rates are as follow:

	<u>Rates Set by Statute</u>		<u>Rates Determined by the Board of Retirement</u>
	<u>Member</u>	<u>Employer</u>	<u>Employer</u>
Main System Full-Time Employees	7.00%	7.12%	
Main System Part-Time Employees	14.12%	0.00%	
Judges	8.00%	17.52%	
Law Enforcement with prior Main System service	5.50%		9.81%
➤ BCI Employees	6.00%		10.31%
➤ National Guard members ¹	4.50%		7.00%
Law Enforcement without prior Main System service	5.50%		7.93%

¹ Effective August 1, 2015, the member contribution rate for former National Guard members increased to 6% and the employer contribution rate increased to 9.81%. Effective January 1, 2016, the contribution rate for National Guard members of the State Law Enforcement plan will be reduced by 0.5% to 5.50%.

BENEFIT PROVISIONS

Effective January 1, 2000:

A member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation Plan under chapter 54-52.2. The vested employer contribution may not exceed:

1. For months one through 12 of service credit, \$25 or 1% of the member's monthly salary, whichever is greater.
2. For months 13 through 24 of service credit, \$25 or 2% of the member's monthly salary, whichever is greater.
3. For months 25 through 36 of service credit, \$25 or 3% of the member's monthly salary, whichever is greater.
4. For service exceeding 36 months, \$25 or 4% of the member's monthly salary, whichever is greater.

Vested employer contributions are credited monthly to the member's account balance.

11. Rollovers:

The fund may accept rollovers from other qualified plans under rules adopted by the Board for the purchase of additional service credit.

Bill 109 – GRS Review

- *Provides for firefighters employed by political subdivisions to join PERS [17.0109.01000]*

- Firefighters that enter either the Law Enforcement system (with or without prior Main System service) would be subject to the same eligibility conditions to receive benefits as law enforcement personnel and the same benefit provisions.
- Firefighters that enter either the Law Enforcement system (with or without prior Main System service) would be subject to the same benefit provisions as law enforcement personnel.
- The addition of a group of firefighters into either of the Law Enforcement plans does not add a new element of risk to either plan, assuming that the actual experience of firefighters (with respect to disability, death in service, retirement, etc.) is not materially different from that of other law enforcement entities participating in either plan.